Oil Super Cycle : Strikeback

Investment Idea :
28 September 2021

Structuration : Protected Tracker Leveraged

Maturity: **4Y**

Underlying's:

- West Texas Intermediate (WTI).

Strike: **100%**

Participation Level: **275%**

Capital Barrier: **60%** European

Currency: **USD**

Overview

We believe that the timing is currently very interesting to invest in West Texas Intermediate (WTI).

Indeed, the collapse of oil prices to less than $20 following the recession caused by the COVID-19 pandemic has accelerated the upcoming supply crisis.

This has resulted in a drastic reduction in capital spending by international oil companies.

On the other hand, US shale drillers are now focusing more on profitability than on growth.

All this means that current long-term oil prices are too low to encourage oil companies to invest in future oil production, which is sorely lacking.

And this has led industry professionals and Goldman Sachs to expect a future rise in oil, with a target of between $90 and $100 by next year.

Thus Trafigura, one of the largest independent oil traders, is expecting an oil price of $100 by 2022.

At the same time Goldman Sachs is raising its WTI target to $90 by the end of 2021.

"The COVID-19 pandemic has accelerated the upcoming supply crisis"

Why Now ?

The multiple factors of this expected increase:

1. **A very strong rebound in global demand following the pandemic.** In particular, Asia is now playing a decisive role due to the increase in its economic activity supported by its growing population.
2. At the same time, **the drop-in hospitalizations worldwide due to COVID 19 is pushing countries to reopen their borders more quickly than expected.** This will result in a strong increase in demand due to the **normalization of air, port and road traffic.**
3. **A supply-demand deficit that is still greater than expected** due to the very strong rebound in demand and a still limited supply. Indeed, the current drawdown of around 4.5 mb/d from observable stocks is the largest ever recorded, including for global strategic stocks, and follows the longest deficit ever recorded since June 2020.
4. **Chronic underinvestment:** current global push towards green energy and the stigma attached to fossil fuels and their financing have led to an unprecedented decline in investment in the sector.
5. **A global gas shortage** will mechanically increase oil-based power generation.
6. **Rapid decline in OPEC spare capacity:** a sharp increase in OPEC production would only accelerate the decline in global spare capacity to historically low levels, replacing a tight cyclical market with a structural market.
7. **The inability of shale producers to sustain production** growth given their low investment targets.
8. **Inflation in oil services and carbon costs.**
9. Goldman Sachs' expectation of a **harsher than expected winter**, pushing up winter demand risks.

"Goldman Sachs, predicts that WTI prices will rise to 90$ by 2021, from 75$ today"

Which investment vehicles?

We decided to make a product directly on the reference index of the sector which is the WTI.

West Texas Intermediate (WTI) can refer to a grade or a mix of crude oil, and/or the spot price, the futures price, or the assessed price for that oil; colloquially WTI usually refers to the price of the New York Mercantile Exchange (NYMEX) WTI Crude Oil futures contract or the contract itself.

The WTI oil grade is also known as Texas light sweet, although oil produced from any location can be considered WTI if the oil meets required qualifications.

Spot and futures prices of WTI are used as a benchmark in oil pricing.

This grade is described as light crude oil because of its relatively low density, and sweet because of its low sulfur content.

The price of WTI is often included in news reports on oil prices, alongside the price of Brent crude from the North Sea.

Other important oil markers include the Dubai crude, Oman crude, Urals oil, and the OPEC reference basket.

WTI is lighter and sweeter, containing less sulfur than Brent, and considerably lighter and sweeter than Dubai or Oman.

Which Structuration?

In order to capture the super cycle, we decided to design a Protected Tracker with a 2,75x leverage, whose parameters are the following:

Protected Tracker

- Maturity: **4Y**
- Underlying's: **West Texas Intermediate (WTI)**
- Strike: **100,00%**
- Participation Level: **275%**
- Capital Barrier: **60%** European
- Currency: **USD**